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AUTHOR Redd, Kenneth E.
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ABSTRACT

This study examined the effects of the Higher Education Amendments of 1992 on Federal Family Education Loan Program (FFELP) borrowing in Pennsylvania during the July-to-December periods of 1992 to 1993. The Amendments increased the annual borrowing limits for the Federal Stafford loans and Federal Supplemental Loans for Students (SLS), eliminated the PLUS loan limits, eliminated home and family farm equity from consideration for financial eligibility for Stafford Loans, and allowed families with gross annual incomes of less than $50,000 to use a simplified needs test to determine their financial eligibility. During the study period, the number of Stafford Loan borrowers rose by 18 percent, the number of subsidized borrowers increased by 26 percent, and loan volume grew by 38 percent. SLS borrowing grew by over 72 percent, and loan dollars increased by nearly 133 percent. PLUS borrowing grew by 31 percent and dollars increased by 64 percent. The number of lower-income and middle-income unsubsidized borrowers fell dramatically as these students became eligible for subsidized loans, while the number of unsubsidized borrowers from upper-income families grew. Analysis suggests that changes in need analysis have allowed students to borrow more than they actually need to meet the costs of education. The increases in borrowing will lead to more borrowers graduating from postsecondary institutions with larger debt burdens, which may lead to rising numbers of loan defaults. (JDD)

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THE EFFECTS OF HIGHER LOAN LIMITS AND NEED ANALYSIS CHANGES ON FFELP BORROWING IN PENNSYLVANIA, JULY TO DECEMBER 1992 TO 1993

By

Kenneth E. Redd
Research Associate

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Pennsylvania Higher Education Assistance Agency
1200 North Seventh Street • Harrisburg, Pennsylvania 17102-1444

EXECUTIVE SUMMARY

This study examines the effects of the Higher Education Amendments of 1992 on Federal Family Education Loan Program (FFELP) borrowing in Pennsylvania during the July-to-December periods of 1992 to 1993. The Amendments increased the annual borrowing limits for the Federal Stafford and SLS loans, eliminated the PLUS loan limits, eliminated home and family farm equity from consideration for financial eligibility for Stafford Loans, and allowed families with gross annual incomes of less than $50,000 to use a simplified needs tests to determine their financial eligibility.

During the study period, the number of subsidized Stafford Loan borrowers increased by 26 percent, loan volume grew by over 50 percent, and the average loan rose by over 19 percent. Much of the increase in borrowing occurred among upper-division undergraduates at four-year public colleges, where loan dollars jumped by over 80 percent, and the average loan increased by 38 percent. Unsubsidized borrowing fell by about 3 percent, with loans for lower-division undergraduates declining by 7 percent. It is very likely that the need analysis changes allowed many unsubsidized borrowers to shift to subsidized loans, which caused total Stafford Loan borrowing to rise by 18 percent, and the amount borrowed to increase by over 38 percent.

SLS borrowing grew by over 72 percent, and loan dollars increased by nearly 133 percent. The number of borrowers at proprietary schools more than doubled, while dollars for graduate students increased by 160 percent. PLUS borrowing grew by 31 percent, dollars increased by 64 percent, and the average loan rose by 25 percent, as many borrowers took advantage of the elimination of the annual PLUS limit.

Because of the changes in need analysis, more higher-income borrowers became eligible to receive subsidized Stafford loans. The number of financially dependent

undergraduate borrowers from families with gross annual incomes of $48,000 or more increased by 64 percent, and the amount they borrowed nearly doubled. The number of borrowers from families with incomes of less than $18,000 increased by only 19 percent, and the amount they borrowed rose by 51 percent.

The number of lower- and middle-income *unsubsidized* borrowers fell dramatically, while the number from upper-income families grew. It appears that more middle-income students who might have been eligible for *unsubsidized* loans only in 1992 qualified for *subsidized* loans in 1993.

These large increases in borrowing occurred despite the relatively small increases in college costs. For example, among financially dependent subsidized loan borrowers, average loans grew by nearly 24 percent, but college costs increased by less than 7 percent. At the same time, the average expected family contribution to college costs *declined* by 15 percent. This suggests that the changes in need analysis have allowed students to borrow more than they actually *need* to meet the costs of education.

The increases in borrowing will lead to more borrowers graduating from their postsecondary institutions with larger debt burdens. If current borrowing trends continue, today's freshmen will leave college in Federal Fiscal Year (FFY) 1997 owing, on average, $13,600 in Stafford Loans, 29 percent more than bachelor's degree recipients who entered repayment in FFY 1993. The first-year salaries of borrowers who begin careers in journalism, education, and other liberal arts fields may not be large enough to meet the higher students loan payments. So it is very likely that FFELP loan defaults will be rising just as Congress is to compare and contrast the FFELP and Direct Loan programs.

Introduction

The Higher Education Amendments of 1992 increased the annual Federal Stafford Loan borrowing limits for first- and second-year undergraduates from $2,625 to $3,500, from $4,000 to $5,500 for upper-division undergraduates, and from $7,500 to $8,500 for graduate students. Annual SLS borrowing limits for upperclassmen undergraduates were raised from $4,000 to $5,000, and to $10,000 for graduate students. And an annual PLUS limits were eliminated entirely, as borrowers were allowed to receive the full amount of their demonstrated financial need. The 1992 Amendments also authorized a new need analysis system for Federal student aid programs that allows all aid applicants to exclude their home and family farm equity from consideration for eligibility, and those with family incomes of under $50,000 to use a simplified needs test to determine their financial eligibility.

This report examines the effects these changes had on Federal Family Education Loam Program (FFELP) borrowing in Pennsylvania during the last two quarters of Federal Fiscal Year (FFY) 1993. The study compares the number of borrowers and loan volume for subsidized and unsubsidized Federal Stafford Loans, SLS, and PLUS loans from the July-to-December periods of 1992 to 1993; this period was chosen because the new Stafford Loan limits for undergraduates took effect on July 1, 1993. The accompanying tables show the number and dollar amounts of loans from the three programs by program type and students' academic grade level (first- and second-year undergraduates, all other undergraduates, and all graduate students) for students who attended Pennsylvania colleges only. Out-of-state schools were not included because

borrowing volumes for these students may have been affected by the Pennsylvania Higher Education Assistance Agency's (PHEAA) national guaranty activities.

The study also examines the changes in the family income levels of undergraduate Stafford Loan borrowers during the study period. This analysis shows the effects the need analysis changes had on loans by income levels. Income data for graduate borrowers were not available, since they generally do not file the Pennsylvania State Grant application, the source of the income and financial dependency data used for the study.

Subsidized Stafford Loan Borrowing

Table 1 shows that the number of borrowers and amounts borrowed increased as follows in the July-to-December periods:

	Borrowers	Amounts
First- and Second-Year Undergrads	24%	45%
Upper-Division Undergraduates	27%	66%
Graduate/Professional Students	34%	37%
All Students	26%	50%

Loan volume increases were especially large for upperclassmen at four-year public colleges, where amounts of loans jumped by almost 80 percent--from about $49 million to over $89 million. The average loan for these students rose by 38 percent, from $2,262 to $3,120. For first- and second-year undergraduates at these colleges, loan volume rose by over 66 percent, from $47.8 million to $79.7 million; the average loan for these students rose from $1,955 to $2,412--a 23 percent increase. Students at four-year public colleges became more likely than others to receive subsidized Stafford Loans because of the changes in the Higher Education Act.

TABLE 1

Subsidized Stafford Loans in PA
July to December, 1992 to 1993

NUMBER OF BORROWERS

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	71,726	89,156	24.3%
All Other Unds	43,096	54,782	27.1
All Grads	11,920	15,996	34.2
Total	126,742	159,934	26.2%

LOAN VOLUME (IN MILLIONS)

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	$149.48	$216.11	44.6%
All Other Unds	115.26	191.81	66.4
All Grads	68.76	93.95	36.6
Total	$333.50	$501.87	50.5%

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Unsubsidized Stafford Loan Borrowing

While subsidized Stafford Loan borrowing rose dramatically, unsubsidized borrowing declined slightly. Table 2 shows that the total number and amount of unsubsidized loans fell by about 3 percent during the study period, but for first- and second-year undergraduates, the number of borrowers and loan volume fell by about 7 percent. Much of this decline occurred at the four-year private colleges, where the number of borrowers fell by 9.5 percent and the amount borrowed fell by 10 percent. The total number of upperclassmen borrowers fell slightly, but the amount borrowed rose by about 2 percent, from $46.3 million to $47.5 million. The number of graduate borrowers increased by about 1 percent, but loan dollars *fell* by nearly 12 percent, from $10.2 million to $9 million. The decreases in unsubsidized Stafford Loan borrowing is likely unique to Pennsylvania, since PHEAA has been guaranteeing unsubsidized loans since 1984-85 and has been meeting the demand for such loans. Unsubsidized borrowing fell because the changes in need analysis have made it possible for previously unsubsidized borrowers to receive subsidized loans.

Combined Stafford Loan Borrowing

Table 3 shows the increases in total Stafford Loan borrowing. Due to the large increases in subsidized loans, total borrowing rose as follows:

	Borrowers	Amounts
First- and Second-Year Undergrads	17%	33%
Upper-Division Undergraduates	19%	48%
Graduate/Professional Students	28%	30%
All Students	18%	38%

TABLE 2

Unsubsidized Stafford Loans in PA
July to December, 1992 to 1993

NUMBER OF BORROWERS

Grade Level	1992	1993	Pct Change
1st and 2nd Yr Und	22,579	20,947	-7.2%
All Other Unds	19,823	19,817	-0.0
All Grads	2,866	2,891	+0.9
Total	45,268	43,655	-3.6%

LOAN VOLUME (IN MILLIONS)

Grade Level	1992	1993	Pct Change
1st and 2nd Yr Und	$41.71	$38.74	-7.1%
All Other Unds	46.25	47.46	+2.6
All Grads	10.18	9.01	-11.5
Total	$98.14	$95.21	-3.0%

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TABLE 3

Subsidized & Unsubsidized Stafford Loans in PA
July to December, 1992 to 1993

NUMBER OF BORROWERS

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	94,305	110,103	16.8%
All Other Unds	62,919	74,599	18.6
All Grads	14,786	18,887	27.7
Total	172,010	203,589	18.4%

LOAN VOLUME (IN MILLIONS)

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	$191.19	$254.85	33.3%
All Other Unds	161.51	239.27	48.1
All Grads	78.94	102.96	30.4
Total	$431.64	$597.08	38.3%

Much of the increase in graduate borrowing occurred at the four-year private colleges, where loan volume grew by 35 percent, from $42.2 million to $57.1 million.

The higher loan limits had a tremendous effect on undergraduate Stafford Loan borrowing in Pennsylvania, especially on subsidized borrowing by students in four-year public colleges. Later sections will show the effects of need analysis changes, by income levels, on undergraduate Stafford borrowers who attended these colleges.

SLS Borrowing

While total Stafford Loan borrowing grew by 38 percent, Table 4 shows that SLS borrowing jumped by *nearly 133 percent.* SLS volume among first- and second-year undergraduate increased by *over 120 percent,* from $8.4 million to $18.7 million. Much of this increase occurred at proprietary schools, where dollars soared by nearly 170 percent, from $3.1 million to $8.3 million. This borrowing is of special concern, since proprietary school borrowers tend to default at a much higher rate than borrowers from other types of schools. At four-year public colleges, the amount borrowed by lowerclassmen increased by over 155 percent, from $1.3 million to over $3.3 million, and the average loan rose by 9.4 percent, from $2,789 to $3,050. For all first- and second-year undergraduates, the average SLS amount increased by just 2 percent, from $2,965 to $3,025.

For upperclassmen, the amount borrowed increased by over 60 percent, and the average loan rose by 5 percent, from $3,209 to $3,366. And for graduate students, the loan volume grew by over 160 percent. Most of the increase in graduate borrowing occurred for those who attended four-year private colleges, where dollars borrowed increased by 179 percent, from $9.1 million to $25.2 million. The higher loan limits had

TABLE 4

SLS Borrowing in PA
July to December, 1992 to 1993

NUMBER OF BORROWERS

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	2,806	6,191	120.6%
All Other Unds	1,343	2,056	53.1
All Grads	3,716	5,309	42.9
Total	7,865	13,556	72.4%

LOAN VOLUME (IN MILLIONS)

Grade Level	1992	1993	Pct Increase
1st and 2nd Yr Und	$ 8.34	$18.73	124.6
All Other Unds	4.31	6.92	60.6
All Grads	13.82	35.96	160.2
Total	$26.47	$61.61	132.8%

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a tremendous effect on this borrowing; the average SLS loan for all graduate students increased by *82 percent,* from $3,718 to $6,774.

PLUS Borrowing

Table 5 shows the increases in PLUS loans and loan volume during the study period. Because virtually all the parents were borrowing for undergraduate students, the data are shown by institutional types only. The number of borrowers increased by 31 percent, from 8,725 to 11,449, and loan dollars grew from $29.8 million to $48.9 million, a 64 percent increase. The average PLUS amount increased by about 25 percent, from $3,413 to $4,273, in response, apparently, to the elimination of the annual PLUS loan limit.

Most of the increase in PLUS volume occurred at four-year private colleges, where the amount borrowed grew by 79 percent. The average PLUS loan at these colleges increased by 37 percent, from $3,599 to $4,936. At four-year public colleges, PLUS loans rose by 54 percent, and the average loan rose by 16 percent--from $3,263 to $3,788.

Stafford Loan Borrowing By Income Levels and Dependency Status

As mentioned previously, the 1992 Amendments changed the Federal need analysis system used to determine financial eligibility for Stafford Loans. Tables 6 through 9 show that these changes helped to increase dramatically the number of undergraduate subsidized loan borrowers from middle- and upper-income families, and to lower the number of lower- and middle-income unsubsidized loan borrowers. The data for these tables are based on about 85 percent of the total number of undergraduate borrowers.

Table 6 shows the number of financially dependent *subsidized* Stafford Loan borrowers, by their gross annual family income levels. From the sample of borrowers whose incomes were available, the number from families with incomes of $48,000 or

TABLE 5

PLUS Loans in PA, July to December, 1992 to 1993

NUMBER OF BORROWERS

Institutional Type	1992	1993	Pct Increase
4-Year Private	3,573	4,688	31.2%
4-Year Public	3,851	5,107	32.6
2-Year Public & Private	144	161	11.8
Proprietary	1,065	1,371	28.7
Other-In-State	92	122	32.6
Total	8,725	11,449	31.2%

LOAN VOLUME (IN MILLIONS)

Institutional Type	1992	1993	Pct Increase
4-Year Private	$12.86	$23.14	79.9%
4-Year Public	12.56	19.35	54.1
2-Year Public & Private	0.48	0.57	18.8
Proprietary	3.57	5.43	52.1
Other-In-State	0.31	0.43	38.7
Total	$29.78	$48.92	64.3%

TABLE 6

Dependent Subsidized Stafford Loans in PA, By Family Income, July to December, 1992 to 1993

NUMBER OF BORROWERS

Family Income Level	1992	1993	Pct Increase
Under $18,000	12,345	14,656	18.7%
$18,000 to $47,999	37,426	44,701	19.4
$48,000 & Over	14,556	23,916	64.3
Total	64,327	83,273	29.5%

LOAN VOLUME (IN MILLIONS)

Family Income Level	1992	1993	Pct Increase
Under $18,000	$27.34	$41.37	51.3%
$18,000 to $47,999	87.13	130.35	49.6
$48,000 & Over	32.88	6.42	99.0
Total	$147.35	$237.14	60.9%
Avg. Income	$34,999	$37,630	7.5%

more increased by over 64 percent and the amount they borrowed nearly doubled. About 55 percent of the increased number of upper-income borrowers attended four-year public colleges.

At the same time, the number of recipients from families with annual incomes of less than $18,000 rose by only 19 percent, and the amount they borrowed rose by only 51 percent increase. The average income for the total sample of dependent subsidized borrowers grew by over 7 percent, from $34,999 to $37,630. In a typical year, the average family income for dependent borrowers in Pennsylvania grows by about 4 percent.

At private colleges (two-year and four-year private colleges combined) the number of dependent borrowers from upper-income families rose by 47 percent, while the number of borrowers from lower-income families rose by 14 percent. The average income for families of borrowers who attended these colleges increased by about 7 percent--from $38,089 to $40,797. At four-year public colleges, the number of recipients from upper-income families rose by *87 percent* while the number from lower-income families grew by just 21 percent. As a result, the average family income of borrowers who attended these colleges increased by about 9 percent, from $33,594 to $36,543. And at two-year public colleges, the number of borrowers from upper-income families more than doubled, while the number from lower-income families rose by 74 percent.

The number of financially *independent* subsidized borrowers with gross annual incomes of less than $12,000 increased by nearly 29 percent, while the number with incomes of $24,000 or more increased by about 20 percent (see Table 7). The largest

TABLE 7

Independent Subsidized Stafford Loans in PA, By Income, July to December, 1992 to 1993

NUMBER OF BORROWERS

Income Level	1992	1993	Pct Change
Under $12,000	11,751	15,122	+28.7%
$12,000 to $23,999	4,890	6,530	+33.5
$24,000 & Over	4,426	5,328	+20.4
Total	21,067	26,980	+28.1%

LOAN VOLUME (IN MILLIONS)

Income Level	1992	1993	Pct Change
Under $12,000	$26.49	$43.28	+63.4%
$12,000 to $23,999	11.15	17.97	+61.2
$24,000 & Over	10.49	14.82	+41.3
Total	$48.13	$76.07	+58.1%
Avg. Income	$15,006	$14,812	-1.3%

increase in independent subsidized borrowers occurred at two-year public colleges, where the number of lower-incomde recipients grew by over 52 percent.

Table 8, which displays the number of financially dependent *unsubsidized* loan borrowers by their family income levels, shows that the total number who received these loans fell by 2 percent, but the number of higher-income borrowers *rose* by over 27 percent. The number of lower-income borrowers fell dramatically, as many became eligible to receive subsidized loans. At private colleges, for example, the number of borrowers from lower-income families fell by 58 percent, while the number from upper-income families *rose* by over 17 percent. At four-year public colleges, the number of borrowers from lower-income families fell by 62 percent, while the number from upper-income families rose by 30 percent.

The average family income for the entire sample of dependent unsubsidized loan borrowers increased by over 18 percent, from $49,036 to $58,046. This sharp rise in average family income suggests that more middle-income students who might have had only *unsubsidized* loans in 1992 were able to receive *subsidized* loans in 1993, and that more upper-income students, who may not have qualified for *any* loans in 1992, became eligible for unsubsidized loans in 1993.

Table 9 shows that unsubsidized borrowing among financially *independent* borrowers experienced similar changes. The number of lower-income borrowers fell by over 36 percent, while the number with higher incomes more than doubled. Due to this increase, the total number of borrowers rose by about 3 percent, and the average income jumped by *over 47 percent,* from $17,887 to $26,304. The number of upper-income borrowers more than doubled at private colleges and four-year public colleges, and grew by nearly

TABLE 8

Dependent Unsubsidized Stafford Loans in PA, By Family Income, July to December 1992, to 1993

NUMBER OF BORROWERS

Family Income Level	1992	1993	Pct Change
Under $18,000	2,621	1,064	-59.4%
$18,000 to $47,999	10,373	7,708	-25.7
$48,000 & Over	13,439	17,133	+27.5
Total	26,433	25,905	-2.0%

LOAN VOLUME (IN MILLIONS)

Family Income Level	1992	1993	Pct Change
Under $18,000	$3.65	$ 1.22	-66.6%
$18,000 to $47,999	17.37	10.38	-40.2
$48,000 & Over	32.31	41.53	+28.5
Total	$53.33	$53.13	-0.4%
Avg. Income	$49,036	$58,046	+18.4%

TABLE 9

Independent Unsubsidized Stafford Loans in PA, By Income, July to December, 1992 to 1993

NUMBER OF BORROWERS

Income Level	1992	1993	Pct Change
Under $12,000	2,369	1,498	-36.8%
$12,000 to $23,999	1,388	1,309	-5.7
$24,000 & Over	1,016	2,124	+109.1
Total	4,773	4,931	+3.3%

LOAN VOLUME (IN MILLIONS)

Income Level	1992	1993	Pct Change
Under $12,000	$3.39	$1.71	-49.6%
$12,000 to $23,999	2.62	2.10	-19.8
$24,000 & Over	2.02	4.56	+125.7
Total	$8.03	$8.37	+4.2%
Avg. Income	$17,887	$26,304	+47.1%

TABLE 10

Total FFELP Borrowing in PA, July to December, 1992 to 1993

NUMBER OF BORROWERS

Program Type	1992	1993	Pct Change
Subsidized Stafford	126,742	159,934	+26.2%
Unsubsidized Stafford	45,268	43,655	- 3.6
(Combined Stafford)	(172,010)	(203,589)	(+18.4)
SLS Loans	7,865	13,556	+72.4
PLUS Loans	8,725	11,449	+31.2
Total	188,600	228,594	+21.2%

LOAN VOLUME (IN MILLIONS)

Program Type	1992	1993	Pct Change
Subsidized Stafford	$333.50	$501.87	+50.5%
Unsubsidized Stafford	98.14	95.21	- 3.0
(Combined Stafford)	(431.64)	(597.08)	(+38.3)
SLS Loans	26.47	61.61	+132.8
PLUS Loans	29.78	48.92	+64.3
Total	$487.89	$707.61	+45.0%

89 percent at two-year public colleges. Conversely, the number of lower-income borrowers fell by at least 30 percent at public and private four-year and two-year colleges.

Summary/Conclusions

The changes in loan limits and need analysis have given more Pennsylvania students access to more FFELP dollars than ever before. These changes are summarized in Table 10. Over 18 percent more students received either a subsidized or unsubsidized Stafford Loans, they borrowed 38 percent more, and the average loan grew by over 17 percent. Unsubsidized borrowing declined, as many more borrowers became eligible for subsidized Stafford Loans.

Over 72 percent more borrowers received SLS loans, they more than doubled their amounts borrowed, and their average loan rose by 35 percent. The increase in borrowers is largely attributable to an increase in proprietary school borrowers, and the increase in loan volume is due primarily to larger loans for graduate students.

Over 31 percent more borrowers received PLUS loans, the amount borrowed increased by 64 percent, and the average loan rose by 25 percent. So eliminating the annual PLUS borrowing limit helped drive this borrowing upward.

It is very apparent that liberalizing access to FFELP dollars has produced a dramatic increase in borrowing among Pennsylvania students and their families, especially for undergraduates from middle- and upper-income families. This is good news, assuming that the increased *demand* for loans represents a real increased *need* for them. However, the data in Table 11 suggest that students and their families are borrowing more than they actually need in order to pay the costs of attending college. This table shows that, for subsidized loan borrowers who were financially dependent, the average loan increased

TABLE 10

Total FFELP Borrowing in PA, July to December, 1992 to 1993

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Total	$487.89	$707.61	+45.0%

TABLE 11

Average Loans, Average Education Costs, and Average Expected Family Contribution for Dependent Undergraduate Subsidized Stafford Loan Borrowers in Pennsylvania by Academic Grade Levels, July to December, 1992 to 1993

1st and 2nd Year Undergraduates

Type of Institution	Avg Loan in 1992	Avg Loan in 1993	Pct Change	Avg Cost in 1992	Avg Cost in 1993	Pct Change	Avg EFC in 1992	Avg EFC in 1993	Pct Change
4-Year Private	$2,320	$2,668	+15.0%	$17,141	$18,301	+ 6.8%	$5,066	$4,353	-14.1%
4-Year Public	1,958	2,412	+23.2	8,237	9,379	+13.9	3,261	2,950	- 9.5
2-Year Private	2,211	2,504	+13.3	12,026	12,282	+ 2.1	3,654	2,535	-30.6
2-Year Public	1,318	1,725	+30.9	5,643	5,563	- 1.4	2,801	2,175	-22.3
Proprietary	2,193	2,399	+ 9.4	10,383	10,680	+ 2.9	3,047	2,225	-27.0
Other In-State	2,114	2,455	+16.1	10,513	10,283	- 2.2	4,191	3,294	-21.4
Total	$2,104	$2,464	+17.1%	$11,789	$12,515	+6.2%	$3,890	$3,311	-14.9%

All Other Undergraduates

Type of Institution	Avg Loan in 1992	Avg Loan in 1993	Pct Change	Avg Cost in 1992	Avg Cost in 1993	Pct Change	Avg EFC in 1992	Avg EFC in 1993	Pct Change
4-Year Private	$3,140	$3,969	+26.4%	$16,842	$17,830	+ 5.9%	$5,801	$4,750	-18.1%
4-Year Public	2,203	3,078	+39.7	7,960	9,099	+14.3	3,401	3,029	-10.9
Proprietary	2,849	3,111	+ 9.2	9,306	10,268	+10.3	3,528	2,798	-20.7
Other In-State	2,410	3,113	+29.2	8,902	8,596	- 3.4	3,728	2,979	-20.1
Total	$2,658	$3,498	+31.6%	$12,215	$13,217	+8.2%	$4,549	$3,837	-15.7%
Grand Total	$2,320	$2,867	+23.6%	$11,955	$12,789	+7.0%	$4,147	$3,516	-15.2%

by nearly 24 percent, but average college costs (costs of tuition and fees, room and board, books and supplies, and miscellanous expenses) grew by just 7 percent. Due to the changes in need analysis, the average expected family contribution (EFC) *fell* by over 15 percent. The disparity between average loans, college costs, and EFCs is greatest for upperclassmen at four-year public colleges, where loans grew by nearly 40 percent, costs increased by 14 percent, and the EFC fell by nearly 11 percent. For upperclassmen at all Pennsylvania colleges, the average loans increased by over 31 percent, while costs increased by just 8 percent, and the average EFC fell by nearly 16 percent. Undoubtedly, the changes in need assessment have allowed many of these students to borrow more than they need to pay their college costs.

The same relationship between changes in average loans, average costs, and EFCs also exists for undergraduate subsidized loan borrowers who were financially *independent*. For these recipients, the average loan rose by over 20 percent, while average college costs increased by just 5 percent, their average expected contributions to college costs fell by 17 percent (see Table 12). For upperclassmen at four-year public colleges, average loans increased by 33 percent, while costs rose by just 7.8 percent. The average EFC for these borrowers fell by nearly 22 percent. For all independent upperclassmen borrowers, average loans jumped by over 28 percent, while costs rose by less than 6 percent, and the average EFC fell by 17 percent.

The increase in borrowing will undoubtedly lead to a rising number of borrowers who will face loan repayment burdens. The average cumulative Stafford Loan debt for Pennsylvania bachelor's degree recipients who entered repayment in FFY 1992 was $10,127. This average grew by just 4 percent, to $10,556, in FFY 1993. At the average

annual borrowing rates of increase *this year,* today's freshmen borrowers will leave college owing an estimated average cumulative debt of $13,600, about 29 percent more than FFY 1993's undergraduate students. The average annual loan repayment will rise from about $1,522 to $1,795 (the percentage increase is smaller than the 29 percent increase in principal, due to today's lower interest rates). The $273 increase in average annual payments is less than $23 per month, so many may wonder why there should be any concern.

According to the Collegiate Employment Research Institute at Michigan State University, the average first-year salaries of bachelor's degree recipients in 1993-94 is about $24,500. This means that, *on average,* Stafford Loan borrowers' loan repayments represent about 6.2 percent of their average annual incomes.

If first-year salaries for today's students grow at the basically flat annual 0.9 percent rate they grew between 1993 and 1994, and loan debt grows at the rates reported in this study, borrowers who enter repayment in FFY 1997 will earn, on average, about $700 more per year, about $25,200, but their $273 increase in annual loan payments will absorb about 39 percent of these additional earnings, and inflation will get more than the rest.

Borrowers who pursue careers in some fields will be in more trouble than others. For example, the increased loan debt is expected to absorb about 110 percent of the increased earnings of journalism graduates, 87 percent of liberal arts majors' added earnings, 67 percent of the social sciences majors' increased earnings, and 50 percent of the education majors' added earnings, but only 13 percent of the engineering graduates' added income, and just 29 percent of the accounting majors' salary increases. It is likely that, on average, when inflation in consumer prices and student loan repayments are considered,

today's freshmen borrowers will have less *real* buying power when they enter repayment than do the 1993-94 graduates.

Years of research on student loan defaults has shown that as loan repayments reach 10 percent of their gross annual incomes, borrowers are extremely likely to default. On average, today's bachelor's degree recipients will devote about 6.2 percent of their income to loan repayments. By 1997, this percentage will rise to 7.1 percent. And since this is only the average, we can expect many to have even higher percentages. So it appears very likely that defaults will rise at even higher rates than they are rising now.

The Higher Education Amendments of 1992 increased Pennsylvania borrowers' access to FFELP loans. However, this increased access is very likely to lead to rising debt burdens and defaults in just a few years--about the same time Congress is again to compare and contrast the relative merits of FFELPs and Direct Loans.

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